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CENTRAL INTELLIGENCE AGENCY ACT AMENDMENTS OF 1963

EXPLANATION AND JUSTIFICATION

1. Purpose of Proposed Bill

a. The proposed bill permits the Agency to improve its retirement program by authorizing the establishment of a retirement system corresponding to that of the Foreign Service. The Central Intelligence Agency needs to attract and retain a force of highly motivated careerists who are intensively trained in unique skills. However, the Agency is unable in fact to provide full-term careers for many individual officers. In order to minimize the adverse effects of necessary programs of managed attrition and to preserve its ability to recruit and retain the high caliber personnel it needs, the Agency must make reasonable provision for the futures of those individuals who must be separated before completing a full-term career of thirty or so years. Therefore, the proposed bill adds a new Title II to the Central Intelligence Agency Act of 1949, as amended, which establishes for a limited number of Agency employees a retirement and disability system corresponding to that established for persons serving in the Foreign Service of the Department of State.

b. Section 4 of the Central Intelligence Agency Act was originally drafted to extend to Agency employees serving abroad travel expenses and overseas allowances similar to those extended to Foreign Service personnel. Section 2 of the proposed bill makes appropriate modifications in Section 4 of the Central Intelligence Agency Act to bring it up to date in this regard. Certain other amendments have been determined to be necessary and have been explained in the Sectional Analysis and Explanation, Appendix A.

2. Need for a Separate Retirement System for Certain Employees

a. Summary

All regular employees of the Central Intelligence Agency are at present covered by the provisions of the Civil Service Retirement Act. Such coverage is appropriate for those whose conditions, obligations, and terms of service are comparable to those of federal employees generally. However, the Agency has a serious problem in its need to make more adequate provision for certain of its employees who should be retired at an earlier age and with a more equitable annuity than can be provided under the Civil Service Retirement Act. This need stems from the fact that the Agency cannot provide to or expect from many individuals in its service a full-term working career of thirty or so years.

b. Background

(1) The conditions underlying this situation are complex. For some years the Agency has recognized that it faces a serious dilemma.

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On the one hand, the nature of its mission requires the employment of people who are highly motivated and who develop unique and specialized abilities through their continuing training and service over the years. Moreover, the nature of the Agency's mission requires that a substantial proportion of its personnel accept, as do members of the military services, the obligation to serve anywhere in the world at the Agency's direction---not at their own will---and to be available for duty on a 24-hour-a-day basis. In sum, the employment of people to serve on a career basis is essential to fill the majority of the Agency's requirements for personnel. On the other hand, factors directly related to the nature and conditions of service in the intelligence field and factors affecting the ability and desire of individuals to remain in such work on a long-term basis make it infeasible to provide full-term employment for all careerists.

(2) The nature of the work involved in the Agency's operations requires people who have a high degree of vigor, vitality, endurance, resilience, and adaptability. Such traits are required to cope with the stresses and strains occasioned by uneven and uncertain hours and days of work, duty in unhealthful locations with less than adequate medical facilities, or arduous, and not infrequently hazardous, assignments. For example, the responsibility of the Agency for covert cold war functions and continuance of counter-insurgency activities requires the Agency to employ numbers of individuals whose skills are not necessarily adaptable to full-term careers.

(3) There is a further requirement that officers serving overseas must normally perform their work under the cover of employment with some other organization, a requirement which limits their long-term utility. The usefulness of an officer is seriously impaired, if not destroyed, if his true employment affiliation is revealed. Yet, the longer he serves under cover, and particularly if his cover must be changed in the course of moves from one post to another, the greater becomes the risk that his true affiliation will be inadvertently revealed to or inferred by hostile parties. Finally, since most positions in cover organizations which can be made available for the Agency's use are those which would normally be manned by junior personnel of the host organization, it is difficult to find appropriate cover for any substantial number of officers of middle-age or over.

(4) There are other factors pertaining to the individuals themselves which, over the years, limit their ability and desire to continue in overseas service.

(a) First, there is "motivational exhaustion." This term is used to describe a gradual lessening of interest and enthusiasm of an officer as a result of impingements on his personal and family life. These stem from the transient nature of his assignments, the complications and restrictions of security requirements, and intrusions on his family life occasioned by the requirement that he spend his apparent "leisure time" in performing additional

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Agency duties after completing his cover workday. Further, while all Agency employees are subject to security restrictions which place severe limitations on their personal freedoms, employees serving abroad are subject to even greater restrictions and, in addition, must conduct their personal affairs in a manner consistent with their cover employment. These factors tend to lessen the enthusiasm and willingness of the family to accompany the officer on further assignments overseas.

(b) Second, our experience has shown that many officers or members of their families will in time incur physical impediments which limit or preclude their further assignment overseas. The moderate climate and excellent medical facilities of the United States make living in our own country healthier than living in many areas abroad. It is accepted medical fact that there are more disease hazards and a greater incidence of sickness abroad than in the United States. Americans, because of the advances of sanitation and public health in this country, have failed to develop the natural immunities which most foreigners develop. Consequently, Americans are more susceptible than local inhabitants to the diseases of an area.

The wear and tear of repeated illness saps an individual's strength and resilience and affects his longevity. Moreover, ills which an employee encounters in one place often attach themselves permanently as chronic and sometimes disabling conditions. This contributes to the need for the earlier retirement provisions now proposed for certain employees of the Agency.

(5) The dynamic nature of intelligence produces sudden and sometimes radical shifts in the types of personnel required. Completion of a mission of a temporary nature or a shift in emphasis or direction of operations may result in an overabundance of officers who are skilled in a relatively narrow field. Their primary qualifications thus become obsolete or unneeded and they become "occupationally surplus."

c. Manpower Control

(1) The Agency finds it increasingly necessary to impose manpower controls to ensure appropriate alignment as to age, qualifications, and other characteristics of its employees engaged in conducting or supporting foreign intelligence operations. Insofar as possible, imbalances should be and are corrected by the reassignment of officers, who cannot or should not continue in such work, to other fields of work in the Agency. It is a certainty, nonetheless, that encouraged and induced attrition will continue to be necessary. A program of managed attrition is feasible, however, only if it is linked with a system of

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retirement benefits which are sufficient to induce an employee or a prospective employee to take the risk that he may be one of those individuals who cannot serve a full term career.

(2) The seriousness of this risk to the individual is greatly augmented by the difficulty which he will encounter in effecting a transfer from intelligence activities to other Government or commercial fields. The principal reason for this is that the special skills required for intelligence work are not ordinarily required in other fields. Other reasons are the inability of employees for security reasons to describe or confirm to a prospective employer the scope and level of his duties and responsibilities. Further, there is a reluctance on the part of other employers, both Governmental and private, who are engaged in business overseas to hire a former intelligence officer. This reluctance stems from their concern that the attitudes of foreign officials toward their enterprises might be adversely affected if they were known to employ "former spies."

(3) As part of its manpower control program, the Agency has instituted administrative procedures for identifying employees who become surplus to its needs because of the several factors described above and during the past year has separated some 125 such individuals. Many of these individuals had given long years of competent and faithful service to the Agency and to the Government. The process of terminating their employment was made the more painful because of the relatively inadequate assistance which the Agency could offer them in making occupational transfers or in retiring prematurely. The benefits available were limited to those provided under the discontinued service provisions of the Civil Service Retirement Act and to modest separation compensation payments from the Agency which are related to years of service and salary.

3. Proposed Retirement System

a. In order to minimize the adverse effects of such programs on the Agency's ability to recruit and retain the caliber of personnel needed, and particularly to minimize their effects on the dedicated personnel already in the service of the Agency, better provision must be made for the futures of those individuals who are separated before completing a full-term career. An important means for doing so is to establish a retirement system permitting earlier retirement with a more nearly adequate and equitable annuity than is possible under the civil service retirement system.

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c. Appendix B compares the pertinent provisions of the Foreign Service and the civil service retirement systems prior to the enactment of Public Law 87-793 which liberalized certain annuity benefits under the civil service retirement system. This chart is based on a similar chart appearing in the Report of the House Committee on Foreign Affairs in the second session of the 86th Congress. It was prepared at that time in connection with proposed amendments to the Foreign Service Act of 1946, as amended, relating to the retirement system, which proposals were subsequently enacted into law.

d. All of the Agency's employees do not serve under conditions warranting other than the normal retirement considerations. Consequently, the Agency does not intend to place all of its personnel under the proposed new system. Those who are to be designated for coverage will undergo a rigid selection process, the essential criteria for coverage being as follows:

(1) Career employees whose duties and responsibilities are predominantly concerned with the conduct and support of intelligence operations in foreign countries or with covert support in the United States of such operations under comparable conditions; or,

(2) Career employees whose duties are so specialized that they are placed at a special disadvantage when required to seek other employment.

e. At any moment in time, approximately [] employees are serving abroad and a like number are at headquarters as replacements. It is estimated that a maximum of [] employees will qualify for coverage under the proposed system; the remainder will not attain eligibility due to attrition and failure to qualify for various reasons.

f. Normally, we would anticipate that an average of some 27 of those employees who would be covered under the proposed system would become eligible for optional retirement under the civil service retirement system during each of the next five years. For the reasons presented above and in order to correct imbalances in the age make-up of this group, we plan under the proposed system to increase the average number of retirements from this group by about 40 in each of these years. Also, during the past year, the average age of Agency personnel who retired under the civil service retirement system was 66. We plan in time to lower the average retirement age of those covered under the proposed system to about 55 years, which is comparable to the average retirement age in the Foreign Service.

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g. The specific provisions of the proposed retirement system and other amendments to the Central Intelligence Agency Act and explanatory notes are contained in Appendix A, Sectional Analysis and Explanation.

4. Cost Estimates

a. There will be certain increased costs for the administration of the retirement system. For reasons of efficiency and security, it is considered essential that full administration of the program, excluding maintenance of the fund by the Department of the Treasury (as required by law in the case of the Foreign Service Retirement Fund), be accomplished within the Agency. It is estimated that by the end of the first five years the administration of the proposed program would cost approximately \$85,000 per year including an increased staffing requirement of approximately eight man years. Internal administration of the program would include determinations of eligibility and entitlements, payment of retirement benefits, and all related administrative matters.

b. Program costs cannot be estimated with comparable precision. Nevertheless, reasonably valid estimates have been made on the basis of actuarial experience of the civil service and the Foreign Service systems.

(1) The most recent annual report of the Chairman of the Civil Service Commission presents cost factors indicating that in addition to the 13% of payroll contributed by the employee and the employing agency the Government would be required to contribute an additional .83% of the annual payroll of covered employees to support the benefits accruing on account of current service. (Cost factors updated to include the cost of increased annuity benefits provided under Public Law 87-793 are not yet available. It can be anticipated, however, that they will increase the .83% of payroll additional contribution by the Government and thus narrow the differential between the civil service and Foreign Service systems stated below.)

(2) Similar, although not fully comparable data pertaining to the Foreign Service retirement system, indicates that additional contributions by the Government of 10.69% would be required. Using the difference (9.86%) between these two estimates as reflecting the cost differentials of the differing benefits of the two programs and applying this difference to the estimated annual payroll of the [] Agency employees eligible for the proposed retirement system, we compute that a maximum additional Government contribution of [] annually would be required. However, it has not been Government practice for many years to fully fund its retirement programs. Further, there have been special charges against the Foreign Service Retirement Fund which go beyond the basic benefits of the proposed system.

c. Increased payout costs for the next five years can be estimated through comparison of the basic annuity benefits under the proposed system over the civil service system. Our estimate assumes reduction in retirement age of the eligible group to 55 years and attainment of the planned

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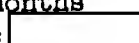
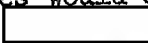
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rate of 67 retirements per year. It also, based upon age and grade characteristics of the group, assumes retirement with 25 years of service and an average high-five salary at about the second step of GS-13. Lastly, in computing the increased payout, the estimated high-five salary was adjusted to reflect salary increases and the increases in civil service annuities authorized by the Postal Service and Federal Employees Salary Act of 1962.

ESTIMATE OF TOTAL INCREASED ANNUITY PAYMENTS

<u>Fiscal Year</u>	<u>Annuitants (Cumulative Total)</u>	<u>Increased Annuity Payments (Annual Payout)</u>
1964 ($\frac{1}{2}$ year)	34	
1965	101	
1966	168	
1967	235	
1968	302	
Total Increased Annuity Payments		

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d. The chain of recruitment, reassignment, and promotion actions created by this annual retirement of officers would result in a considerable lapse in salary expenses. Assuming an average lag of six months in this process, the reduction of expenditures would approximate  per retirement and would total approximately  over a five-year period. This amount would almost offset the estimated increase in annuity payments for the first five years that the new system was in operation.

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Attachments:

Appendix A, Sectional Analysis and Explanation

Appendix B, Comparison of Foreign Service Retirement and Disability System with Pertinent Provisions of the Civil Service Retirement System

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